TENNESSEE GENERAL ASSEMBLY
FISCAL REVIEW COMMITTEE

FISCAL NOTE

SB 1839 - HB 1804

March 3, 2014

SUMMARY OF BILL: Moves the point of taxation of the gasoline tax, special privilege tax, and the environmental assurance fee from the time the product first comes to rest in this state to the time the product is removed from the terminal rack. Exempts from the taxes and fees, with the exception of the export tax, taxable petroleum products removed from a terminal for export, if the motor fuel is removed by a person licensed in this state and the supplier of the motor fuel collects tax on it at the rate of the motor fuel's destination state, or if the supplier that is the position holder for the motor fuel sells the fuel to a supplier/distributor as the fuel crosses the terminal rack, the purchasing supplier/distributor or its customer removes the fuel at the terminal rack for export, and the supplier that is the position holder collects tax on the motor fuel at the rate of the motor fuel's destination state. Removes the refinery exemptions currently allowed under Tenn. Code Ann. § 67-3-410.

ESTIMATED FISCAL IMPACT:

Increase State Revenue – $2,500/Recurring/General Fund
$122,500/Recurring/Highway Fund

Decrease State Revenue – $60,200/One-Time/General Fund
$27,642,900/One-Time/Highway Fund
$1,169,600/One-Time/Petroleum Underground Storage Tank Fund
$588,100/One-Time/Debt Service Fund

Increase State Expenditures – $200,200/One-Time/General Fund

Decrease Local Revenue – $15,561,300/One-Time

Other Fiscal Impact – There would be a one-time increase in revenue since the currently un-taxed amounts in inventory, pursuant to Tenn. Code Ann. § 67-3-410, would immediately become taxable as a result of this bill. However, any such increase would be offset over time with an equivalent decrease in revenue, as such fuel products would, upon removing the refinery exemptions currently allowed under Tenn. Code Ann. § 67-3-410, no longer be taxed upon leaving the refinery. The amount of any such one-time increase and the subsequent decrease over time cannot be quantified with reasonable certainty as the current inventory held by refineries is unknown.

Assumptions:

- According to the Department of Revenue, deleting Tenn. Code Ann. § 67-3-410 will result in a recurring increase in revenue of $125,000 from the imposition of the export fee on all fuel, including diesel. Approximately 98.0 percent of this amount, or $122,500, is estimated to be an increase to the Highway Fund, and 2.0 percent, or $2,500, will be an increase to the General Fund.
- In addition, there would be a one-time increase in revenue since the currently un-taxed amounts in inventory would immediately become taxable. However, any such increase would be offset over time with an equivalent decrease in revenue, as such fuel products would, upon removing the refinery exemptions currently allowed under Tenn. Code Ann. § 67-3-410, no longer be taxed upon leaving the refinery. The amount of any such one-time increase and the subsequent decrease over time cannot be quantified with reasonable certainty as the inventory held by refineries is unknown.
- According to the Department of Revenue and based on national data published by the U.S. Energy Information Administration, there was approximately 25 days of supply to gasoline stock in 2013.
- Based on information provided by the Department, and for the purposes of this fiscal note, it is assumed importers of gasoline will not alter their operation in anticipation of the implementation of this bill. Therefore, there will be approximately a 25 day supply of gasoline on which the tax has already been paid. The amount of tax paid on this gasoline would be a credit against the tax owed when the gasoline is removed at the terminal rack. As a result, no additional tax would be collected on the gasoline removed at the terminal rack for approximately 25 days.
- In August 2013, the Department collected $50,642,600 in gasoline tax, $3,731,249 in special petroleum gas, and $1,450,266 in environmental assurance fees, for a total of $55,824,115 for the tax period of July 2013 (reflected as August 2013 collections).
- The Department estimates that this bill would reduce the tax paid in July 2014 by 80.65 percent (25 days / 31 days). This would result in a one-time reduction in reported collections in August 2014 of $45,022,149 ($55,824,115 x 80.65%).
- According to the Department, approximately 38.10 percent of the gasoline tax collections is allocated to the local government. According to the Department of Transportation, approximately 60.46 percent of such tax is allocated to the Highway Fund. The remaining 1.44 percent is estimated to be allocated to the Debt Service Fund.
- Approximately 98.00 percent of the special privilege tax is allocated to the Highway Fund, with the remaining 2.00 percent going to the General Fund (the local annual amount of $12,017,000 is assumed to be unaffected by this bill).
- It is assumed that 100.00 percent of the environmental assurance fee is allocated to the Petroleum Underground Storage Tank Fund.
- The one-time decrease in revenue to the General Fund in FY14-15 is estimated to be $60,185 ($3,731,249 x 80.65% x 2.00%).
- The one-time decrease in revenue to the Highway Fund in FY14-15 is estimated to be $27,642,900 [($50,642,600 x 80.65% x 60.46%) + ($3,731,249 x 80.65% x 98.00%)].
- The one-time decrease in revenue to the Debt Service Fund in FY14-15 is estimated to be $588,143 ($50,642,600 x 80.65% x 1.44%).

- The one-time decrease in revenue to the Petroleum Underground Storage Tank Fund in FY14-15 is estimated to be $1,169,640 ($1,450,266 x 80.65%).
- The one-time decrease in local government revenue in FY14-15 is estimated to be $15,561,281 ($50,642,600 x 80.65% x 38.10%).
- According to the Department, the one-time increase in expenditures to the General Fund for computer changes necessary to implement this bill is estimated to be $200,200.

CERTIFICATION:

The information contained herein is true and correct to the best of my knowledge.

Lucian D. Geise, Executive Director

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